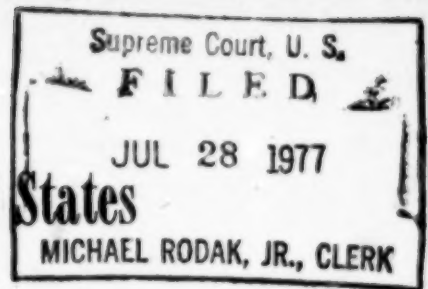


IN THE  
**Supreme Court of the United States**



October Term, 1977

No. \_\_\_\_\_

**77-156**

MILGO ELECTRONIC CORPORATION and INTERNATIONAL  
COMMUNICATIONS CORPORATION,

*Petitioners,*

vs.

CODEx CORPORATION and YELLOW FREIGHT SYSTEM,  
INC.,

*Respondents.*

**Petition for a Writ of Certiorari to the United States  
Court of Appeals for the First Circuit.**

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IN THE  
**Supreme Court of the United States**

October Term, 1977

No. ....

MILGO ELECTRONIC CORPORATION and INTERNATIONAL  
COMMUNICATIONS CORPORATION,

*Petitioners,*

*vs.*

CODEX CORPORATION and YELLOW FREIGHT SYSTEM,  
INC.,

*Respondents.*

**Petition for a Writ of Certiorari to the United States  
Court of Appeals for the First Circuit.**

The petitioners, Milgo Electronic Corporation and International Communications Corporation (hereinafter Milgo), pray that a Writ of Certiorari issue to review the opinion and judgment of the United States Court of Appeals for the First Circuit rendered in these proceedings on April 29, 1977.

**OPINIONS BELOW.**

The opinion of the Court of Appeals, printed in Appendix A, *infra*, pp. 1-9, is reported at 553 F.2d 735 (1st Cir. 1977). The memorandum and order of the United States District Court for the District of Massachusetts, as yet unreported, appears in Appendix B, p. 10. The Court of Appeals reversed the order of the District Court which had stayed its own case pending the outcome of the related case in Kansas,



*Milgo Electronic Corp. v. Yellow Freight Systems, Inc.*, CA 76-16-C2 (D. Kan., filed January 23, 1976) against Yellow Freight Systems, Inc. (hereinafter Yellow Freight), a co-plaintiff below and respondent herein. The Court of Appeals issued a mandate enjoining further prosecution of the aforesaid Kansas action.

#### JURISDICTION.

The judgment of the Court of Appeals for the First Circuit was entered on April 29, 1977. This Petition for Writ of Certiorari was filed less than 90 days from the date aforesaid. The jurisdiction of this Court is invoked under § 1254 of Title 28 of the United States Code.

#### QUESTIONS PRESENTED.

1. Can the Federal Court congestion permit a Circuit Court to enunciate a new rule which disregards this Court's *Kerotest Mfg. Co. v. C-O-Two Co.*, 342 U.S. 180 (1952) decision and substitute a rigid manufacturer forum, only, rule thereby judicially requiring duplication of patent validity litigation in each case where infringing manufacturers reside in different judicial districts?
2. Should a prior patent infringement customer suit be automatically enjoined when a subsequent declaratory judgment manufacturer suit is filed in another forum even though a second earlier patent infringement suit against the largest infringing manufacturer is also pending in the same forum as the customer suit?
3. Should familiarity of a trial judge with factual issues in a previous patent suit disqualify him from being assigned a subsequent suit against a new infringer on the same patent?

#### STATUTES INVOLVED.

The statute most specifically involved is 28 U.S.C. § 1400(b), the so called "patent venue statute" which reads:

"... (b) Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."

Also of interest are the general venue statute, 28 U.S.C. § 1391(b) and (c); the change of venue statute, 28 U.S.C. § 1404(a); the multidistrict litigation statute, 28 U.S.C. § 1407(a); and the disqualification statute, 28 U.S.C. § 144.

#### STATEMENT OF THE CASE.

Milgo filed the first of its related patent infringement actions in Kansas City, Kansas, in 1971 against a telephone company and its subsidiary which were incorporated in Kansas and had their headquarters within that district, *Milgo Electronic Corporation v. United Telecommunications, Inc. and United Business Communications, Inc.*, CA KC-3380 (Kan., filed July 9, 1971); 189 U.S.P.Q. 160 (1976) (hereinafter referred to as the *United Suit*). These defendants manufactured and sold specialized telephone terminal equipment commonly called data modems.

Data modems function as an interface between computers and other sources of digital information and the telephone network. Thus, one data modem is arranged to accept digital data signals, for example, from a computer and translate the digital data signals into a signal format that may be transmitted over

a telephone line, such as the switched telephone network. Another data modem at the other end of the telephone line is arranged to receive the signal format and translate it back into the original digital signals to be supplied to a data receiving source, such as another computer.

Milgo revolutionized the data transmission field by developing and marketing data modems having a unique operating principle, which dramatically increased the speed of data transmission over ordinary telephone lines to double that of previously known equipment. This increased data transmission rate was very important, for example, to the computer industry because it saved extremely expensive computer time, as well as cut down on billable telephone time. This resulted in the development of new markets for remote terminal equipment, such as airline reservation systems which used remote terminals tied, via modems and telephone lines, to centrally located computers.

Milgo applied for and obtained patents on this basic technological breakthrough. Milgo's competitors, including the telephone equipment manufacturers such as United Telecommunications, Inc. (hereinafter United), Western Electric Company, Inc. (hereinafter Western), Codex Corporation (hereinafter Codex) and others, adopted Milgo's patented technology in their modems to remain competitive. To protect its patent rights, Milgo filed suits against United and subsequently against American Telephone and Telegraph Company (hereinafter AT&T), Western, et al., and Yellow Freight in Kansas.

Milgo has devoted a considerable amount of money and time in preparing and trying the *United* Suit in

Kansas City. The pretrial discovery was assigned to Judge O'Connor and the actual trial was conducted by Senior Judge Templar. The trial lasted one month and numerous post trial briefs were submitted to the court. Because all of the patents in suit related to extremely complex subject matter, Judge Templar compiled a 50-page glossary of technical definitions and incorporated it into his opinion which he rendered in January 1976.<sup>1</sup> All three Milgo patents in suit were held valid and infringed. Another trial on damages and willful infringements is still pending before Judge Templar.

With most of the pertinent Milgo documents already indexed in the Kansas City Courthouse and with the economic advantages of Judges now familiar with extremely complex technical subject matter, Milgo, on January 23, 1976, filed two additional infringement suits on its patents in Kansas City. One suit named the largest manufacturer of modems in the United States, Western Electric Company.<sup>2</sup> The other suit named Yellow Freight as defendant.<sup>3</sup> Yellow Freight is a customer of Codex, a relatively smaller modem manufacturer based in Boston, Massachusetts.

Both of these latter suits have been assigned to the same Judge O'Connor for pretrial discovery matters who handled the *United* Suit. Milgo expects that

<sup>1</sup>Milgo Electronic Corporation v. United Telecommunications, Inc., ..... F.Supp. ...., 189 U.S.P.Q. 160 (D.C. Kan., 1976).

<sup>2</sup>Milgo Electronic Corp. v. American Telephone & Telegraph Co., Western Electric Co., Southwestern Bell Telephone Co. & Boeing Computer Services Co., CA 76-15-C2 (D. Kan., filed January 23, 1976).

<sup>3</sup>Milgo Electronic Corp. v. Yellow Freight Systems, Inc., CA 76-16-C2 (D. Kan., filed January 23, 1976).



Judge Templar will try these actions in the interest of conserving judicial time and effort. The basic Milgo patent No. 3,524,023, which represents the technological breakthrough, is involved in all three Kansas suits. Two additional Milgo patents are common to both the Western and Yellow Freight suits.

A month after these latter suits were filed in Kansas, Codex and Yellow Freight together filed a declaratory judgment action in Boston, Massachusetts, *Codex Corporation and Yellow Freight Systems, Inc. v. Milgo Electronic Corporation and International Communications Corporation*, CA 76-793-S (D. Mass., filed February 27, 1976), raising the same patent issues as were involved in the prior Kansas suit against Yellow Freight.<sup>4</sup>

Codex then filed a motion to enjoin Milgo's prosecution of the Kansas action against Yellow Freight. Milgo filed a motion to transfer, stay or dismiss the Boston action.

Judge Skinner of the Massachusetts District Court recognized the advantages of consolidation in Kansas, therefore, he denied Codex's motion and granted Milgo's motion as follows: "The Kansas action pre-dates this one, is part of a group of similar cases in that district, and would appear to provide an adequate battleground for testing the validity of the patents in question." Appendix B.

Western, like Yellow Freight, also sought to avoid a trial before an experienced judge in Kansas City by filing (1) a declaratory judgment action in New

<sup>4</sup>International Communications Corporation, a 100% owned subsidiary corporation of Milgo, was also named as a party defendant in Massachusetts.

York on March 2, 1975,<sup>5</sup> and (2) a motion in Kansas to transfer that action to New York. Milgo filed a motion in New York to have the declaratory judgment action transferred to Kansas. Judge O'Connor on July 23, 1976, denied AT&T and Western's motion to transfer.<sup>6</sup> Judge Knapp, on January 28, 1977, ordered that AT&T's and Western's declaratory judgment action be transferred to Kansas.<sup>7</sup>

<sup>5</sup>*American Telephone and Telegraph Co., Western Electric Co., and Bell Telephone Laboratories, Inc. v. Milgo Electronic Corporation and International Communications Inc.*, 76 CIV 996 (S.D.N.Y., filed March 2, 1975).

<sup>6</sup>*Milgo Electronic Corp. v. American Telephone & Telegraph Co.*, CA 76-15-C2 (D. Kan., order from Bench, July 23, 1976).

<sup>7</sup>*American Telephone & Telegraph Co. v. Milgo Electronic Corp.*, 428 F.Supp. 50 (S.D.N.Y. 1977).

## REASONS FOR GRANTING THE WRIT.

1. **The Decision of the Lower Court Below Is in Conflict With This Court's Decision in the Kerotest Case.**
- A. **The First Circuit's Reliance on the Customer Exception Rule Was Misplaced and Does Not Justify Their Reversal of the Kerotest Discretionary Guidelines.**

The First Circuit Court of Appeals reversed the lower Massachusetts District Court's stay order and directly enjoined the Kansas action against the customer of Codex.<sup>8</sup> The Court of Appeals specifically proclaimed new rigid guidelines for its District Courts that disregarded the discretionary judicial conservation guidelines suggested by the Supreme Court in *Kerotest, supra*, at 183:

"The Federal Declaratory Judgment Act, facilitating as it does the initiation of litigation by different parties to many-sided transactions, has created complicated problems for coordinate courts. Wise judicial administration, giving regard to conservation of judicial resources and comprehensive disposition of litigation, does not counsel rigid mechanical solution of such problems. The factors relevant to wise administration here are equitable in nature. Necessary, an ample degree of discretion, approximate for disciplined and experienced judges, must be left to the lower courts."

The First Circuit's new guidelines require a manufacturer declaratory judgment action to automatically

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<sup>8</sup>The jurisdiction of the Court of Appeals was based upon 28 U.S.C. § 1292(a)(1) because the District Court had denied Codex's motion to enjoin Milgo's Kansas action. Pursuant to the mandate of the court of appeals, the District Court on May 24 enjoined Milgo from further prosecution of the Kansas action against Yellow Freight.

take precedence over any customer suit filed in a forum where the manufacturer could not also be sued for infringement. Thus, these guidelines guarantee duplication of patent litigation whenever two infringing manufacturers reside in different judicial districts as set forth below, Appendix A at 6:

"... In these circumstances, where we do not say that there should be an inflexible rule, we would recognize a rebuttable presumption that a manufacturer's declaratory judgment action, in its home forum, at least if brought no later than promptly after a customer action, should take precedence over a mere customer action in a jurisdiction in which the manufacturer could not be sued."

The Court below while paying verbal homage to the flexibility direction of *Kerotest, supra*, and citing their new guidelines as being a rebuttable presumption, selected a fact pattern that guarantees a rigid application to *every* customer suit. The Milgo fact pattern presented a patent of clear technological merit that had been sustained as valid after a month long trial against a large manufacturer who had vigorously contested validity. Additionally, the Kansas forum which was the situs of the customer suit also had a co-pending companion suit on the same patents against one of the world's largest corporate entities, the Bell System, which includes Western, the largest manufacturer of infringing modems. Finally, there was absolutely no evidence of customer harassment.

Very simply, Milgo was seeking a single consolidated decision against formidable opponents and now the decision of the Court below guarantees that a good faith patentee, like Milgo, *must* sue in every separate jurisdiction that contains an infringing manufacturer,



regardless of the relative size of the customer or the extent of his infringement and more importantly, regardless of the possible judicial economy with a consolidated trial of several defendants.

In an effort to justify their modification of the *Kerotest* discretionary guidelines, the Court below disparaged Milgo's entire litigation effort in Kansas. Contrary to the Court below's dicta, neither the companion *United* Suit nor the *Western* suit pending in the same Kansas jurisdiction as the Yellow Freight customer suit are "bootstrapping customer suits". In point of fact, these suits represent massive violations of Milgo's patent rights by utility giants who manufacture infringing modems. It is quite clear that Milgo has not attempted to avoid a severe judicial test as to the actual validity of its patents. Milgo has directly taken on companies who are manufacturers and who are literally hundreds of times the size of Milgo.

Also, it should be quite clear that this is not a customer suit to harass Codex. This is the only Codex customer suit brought and it was brought simply because Yellow Freight was infringing Milgo's patents and was present in Kansas. There were common issues of fact and law currently pending in the Kansas District Court of such complexity as to require a glossary of technical terms. There were also judges present with experience in both pretrial discovery and trial of the common issues. There were also present four other infringers, including Western Electric, against whom Milgo brought suits for infringement the same day it filed its infringement action against Yellow Freight. The fact that there was a pending trial on damages before Senior Judge Templar and a relatively

uncongested court calendar (as compared to Boston)<sup>9</sup> made the choice of the Kansas forum ideal for purpose of conserving judicial effort. Under this fact situation, no infringer in Kansas, whether manufacturer or user (customer) should be immunized from suit.

#### B. Background of the "Customer Exception" Rule.

Before the Supreme Court decision in *Kerotest, supra*, the prevailing rule in the United States was that a patentee had an independent right of action under the patent laws against a user of infringing devices.<sup>10</sup> The manufacturer and customer were two separate parties; and absent a showing of harassment of the manufacturer's customers, see *Kessler v. Eldred*, 206 U.S. 285 (1906), an infringement action against a customer could not be enjoined even when the action against the customer was filed after the action against the manufacturer, *Triangle Conduit & Cable Co. v. National Electric Products Corp.*, 138 F.2d 46 (3rd Cir. 1943), cert. den., 320 U.S. 784 (1943).

After the decision in *Kerotest* in 1952, which advised the lower courts to be more flexible, avoid mechanical solutions and attempt to consolidate litigation, the lower courts essentially split into two approaches. One approach continued to refuse to enjoin prosecution of infringement actions against customers absent a showing

<sup>9</sup>With reference to the latest statistics available from the 1975 Annual Report of Directors of Administrative Office of U.S. Courts, the average *civil* case backlog per judge for Kansas is 387.5 cases while the backlog in Massachusetts is 1,737 cases per judge. The national average backlog per judge is 302. Accordingly, the Boston court calendar is approximately five times as heavy as the national average and the average in Kansas.

<sup>10</sup>35 U.S.C. § 271.



of harassment,<sup>11</sup> and emphasized the patentee's statutory rights against the customer.<sup>12</sup> The statutory presumption of validity<sup>13</sup> was particularly emphasized, especially where it had been reinforced by one or more judgments of validity.<sup>14</sup>

Important in this line of cases was the prejudice to the rights of the patentee by having his suits against the customers enjoined. The manufacturer requesting the injunction had to stand ready to pay and post bond for the damages his customers might ultimately have had to pay for their infringement, before the injunction would issue, see *American Chemical Paint Co. v. Thompson Chem. Corp.*, 244 F.2d 64 (9th Cir. 1957).<sup>15</sup>

<sup>11</sup>See *Sundstrand Corporation v. American Brake Shoe Co.*, 315 F.2d 273 (7th Cir. 1963).

<sup>12</sup>*Ibid.* at 275, and 35 U.S.C. § 271.

<sup>13</sup>35 U.S.C. § 282.

<sup>14</sup>See *Gordon Johnson v. Hunt*, 101 F.Supp. 539, 540 (N.D. Ohio 1951). The basic Milgo patent, 3,524,023, which is involved in this suit has been declared valid and infringed.

<sup>15</sup>The cases refusing to enjoin customer suits include in the Second Circuit: *U.S. Time Corp. v. Hamilton Watch Co.*, 327 F.2d 338 (2d Cir. 1964); *Joseph Bancroft & Sons Co. v. Spunize Co. of America*, 268 F.2d 522 (2d Cir. 1959); *Cresta Blanca Wine Co., Inc. v. Eastern Wine Corp.*, 143 F.2d 1012 (2d Cir. 1944); *Rayco Mfg. Co. v. Chicopee Mfg. Corp.*, 148 F.Supp. 588 (S.D. N.Y. 1957), and *Yale & Towne Mfg. Co. v. Manning, Maxwell & Moore*, 91 F.Supp. 106 (S.D. N.Y. 1950). In the Third Circuit: *Triangle Conduit & Cable Co. v. National Electronic Products Corp.*, 138 F.2d 46 (3rd Cir. 1943) cert. den. 320 U.S. 784 (1943). *Turbo Machine Co. v. Proctor & Schwartz, Inc.*, 204 F.Supp. 39 (E.D. Penn. 1962) and *Hook v. Hook & Ackerman, Inc.*, 101 F.Supp. 81 (W.D. Penn. 1950), on reh., 103 F.Supp.

In the other approach, the courts began enjoining customer suits even where no harassment had been shown. The philosophy being that the real party in interest and also the party that would vigorously contest patent validity was the manufacturer. The statutory right of the patentee to sue a customer was de-emphasized<sup>16</sup> in order to stay or enjoin the customer action pending the manufacturer suit.

However, in both approaches, the "customer exception" rule has been consistently treated as only one permissible factor for the courts to consider under the broad equitable discretionary guidelines of *Kerotest, supra*. It has never acquired a *per se* status that rigidly dictated only one forum.<sup>17</sup>

790 (W.D. Penn. 1952), aff'd, 201 F.2d 512 (3rd Cir. 1953). In the Sixth Circuit: *Acromag, Inc. v. Transmation, Inc.*, 330 F.Supp. 614 (N.D. Ohio 1971); *Gordon Johnson v. Hunt*, 101 F.Supp. 536 (N.D. Ohio 1951).

In the Seventh Circuit: *Sundstrand Corp. v. American Brake Shoe Co.*, 315 F.2d 273 (7th Cir. 1963); *Minnesota Mining & Manufacturing Co. v. Polychrome Corp.*, 267 F.2d 772 (7th Cir. 1959) and *Advance Transformer v. Bromberg*, 106 F.Supp. 691 (N.D. Ill. 1952). In the Eighth Circuit: *Arkay Infants Wear, Inc. v. Klines, Inc.*, 98 F.Supp. 862 (W.D. Mo. 1950). In the Ninth Circuit: *American Chemical Paint Co. v. Thompson Chemical Corp.*, 244 F.2d 64 (9th Cir. 1957).

<sup>16</sup>*William Gluckin & Co. v. International Playtex Corp.*, 407 F.2d 177 (2d Cir. 1969) (the case primarily relied on by the First Circuit). *Mobil Oil Corp. v. W.R. Grace & Co.*, 334 F.Supp. 117 (S.D. Texas 1971).

<sup>17</sup>Even in *Gluckin*, n. 16, *supra*, the Court said at 179 that an inflexible application of this "rule" was certainly to be avoided as *Kerotest* dictated and went on to carefully balance the competing factors involved in that case before reversing the district court for an abuse of discretion.

**2. The Logic Behind the Application of the Customer Exception Rule Is Not Present in Our Fact Pattern.**

In the cases pending before the District Courts of Kansas, New York and Massachusetts, three separate District Court judges weighed the equitable factors of a common trial in Kansas including the “customer exception rule” and correctly decided that Kansas was the appropriate forum.

The Court below even noted in its opinion that its district court did not abuse any discretion in granting its stay order, “. . . nor is it one where we find an abuse of discretion.”<sup>18</sup>

The district courts involved in the Milgo litigation recognized that the viable logic and force for applying the “customer exception rule” was missing in the Kansas forum. Harassment, which is a foundation of the “customer exception rule” was clearly not an issue. Additionally, there was certainly no question that the Milgo patents in question have been and would be truly tried on their merits by parties with economic incentives to test their validity in Kansas. Thus, the patentee is not ducking a test of his patents.

Finally, the weight of all the relevant factors centered on the Kansas forum, including experienced judges, consolidation of issues, less congested docket, etc.

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<sup>18</sup>Appendix A at 9.

**3. Blonder-Tongue Did Not Modify This Court's Kerotest Decision.**

The only relevant case precedent cited for the lower Court's departure from *Kerotest*, *supra* is *Blonder-Tongue Laboratories v. University of Illinois Foundation, et al.*, 402 U.S. 313 (1971). Somehow, the Court below misconceived *Blonder-Tongue*, *supra*, as demanding multiple litigation on patent validity before separate judges.

Clearly, this Court, in the *Blonder-Tongue* decision sought to prevent duplication in patent litigation by providing collateral estoppel for any subsequent suits after a patent had been found invalid in one suit. In *Blonder-Tongue*, this Court recognized that the judicial system could no longer afford a multiplicity of litigation on the same issues on the basis that a single trial judge could not be trusted to determine the validity issue. The lower Court opinion would now drive the pendulum to the other extreme by forcing a patent owner to litigate in every district where an infringing manufacturer resides with no hope of consolidation or conservation of judicial resources.

By creating a “rebuttable presumption” that *every* customer suit must be enjoined regardless of other major manufacturer suits in the same judicial district, the lower Court has elevated the form of the customer exception rule over the substance of the *Kerotest* discretionary guidelines created by this Court.



The result of the decision of the Court below is to require duplication of judicial effort by forcing a patentee to try his patent in each forum where an infringing manufacturer resides. The decision represents a step backward in the progress of our Federal court system to conserve judicial effort through consolidation of discovery and trials where common issues of fact and law are involved.

**4. The Decision of the Court Below Has Forced the District Courts to Take a Step Backward in Judicial Economy.**

The problem of court congestion is well documented and has been recognized by this Court and further in public statements, by individual members of the Court.

To a limited extent, Congress has addressed the problem of multiple litigation by the passing of the Multidistrict Litigation Statute, 28 U.S.C. § 1407 (1968) in an effort to husband judicial resources. This statute has been used to consolidate discovery on common questions of patent validity.<sup>19</sup>

This Court's decisions have constantly sought to insure judicial economy. Thus, not only in *Kerotest*,

<sup>19</sup>*In re Eisler Patent*, 297 F.Supp. 1034 (U.P.M.L. 1968); *In re Butterfield Patent Cases*, 328 F.Supp. 513 (U.P.M.L. 1969) (28 cases consolidated). *In re Yarn Processing Patent Validity Litigation*, 341 F.Supp. 376 (J.P.M.L. 1972) (thirty-five cases consolidated because of common question of patent validity). *In re Antibiotic Drugs Antitrust Litigation*, 355 F.Supp. 1400 (J.P.M.L. 1973) (patent infringement action transferred to Minnesota because of presence there of related cases and experienced judge). *In re Lehman Equipment Company Patent Infringement Litigation*, 360 F.Supp. 1402 (J.P.M.L. 1973). *In re Disposable Diaper Patent Validity Litigation*, 362 F.Supp. 576 (J.P.M.L. 1973). *In re Shipley Co., Inc. Patent Litigation*, 383 F.Supp. 847 (J.P.M.L. 1974). *In re Bourns Patent Litigation*, 385 F.Supp. 1260 (J.P.M.L. 1974).

*supra*, but recently in *Blonder-Tongue, supra*, this Court commented extensively on the burden that patent trials placed on the judicial system and phrased a question which encompasses the issue herein presented;

"The broader question is whether it is any longer tenable to afford a litigant more than one full and fair opportunity for judicial resolution of the same issue." 402 U.S. at 328.

*Blonder-Tongue, supra* found patent validity to have an *in rem* attribute and permitted a plea of estoppel once invalidity was established.<sup>20</sup> The result being to curtail a multiplicity of patent suits against successive infringers once patent invalidity has been established.

Thus, it is clear that both Congress and this Court desire to achieve judicial economy in the Federal court system while providing the litigants one full and fair opportunity for judicial resolution of the issues.

The decision of the Court below has now forced the District Courts within at least the First Circuit to automatically grant a stay or transfer of any suit involving a customer in a forum in which the manufacturers cannot be sued regardless of (1) judicial economy, (2) the opportunity to consolidate with other cases and provide a complete trial of patent validity on all the issues, or (3) lack of harassment of the customer.

<sup>20</sup>*Blonder-Tongue's* rationale is argumentatively applicable to our fact pattern so that a patent once completely tried and found valid should have an *in rem* validity against the same defenses. But regardless of any policy considerations of this question, it is clear that the broader policy of judicial economy is being thwarted by the decision of the court below without any corresponding justification of preventing customer harassment or insuring a full complete trial of validity in the interests of the public, and it is this latter issue which is herein presented to this Court.



**5. The Decision of the Court Below That a Patent Infringement Action Should Not Be Transferred or Stayed in Favor of an Action Pending Before a Judge Who Has Previously Upheld the Patent(s) in Suit Because of Prejudice Is in Conflict With a Statutory Provision and Decisions of Various District Courts.**

The Court below held that:

"... While a judge who has already found a patent valid as against one defendant may not be disqualified from reconsidering the issue against another, *Denis v. Perfect Parts, Inc.*, D. Mass., 1956, 142 F.Supp. 263, (a case about which the writer has since had doubts), if he is a fact finder, and the factual issues are the same, it may be difficult for the district judge to give ... a new defendant a de novo, impartial consideration. ... We consider prior judicial experience in such a situation more a negative than an affirmative reason for transfer."<sup>21</sup>

The decision of the Court below stands for the proposition that a subsequent defendant cannot receive a just and impartial determination from a judge who has previously found the patent or patents in suit valid. Our judicial system is, of course, founded on the principle that all litigants are entitled to an impartial and just determination of every action. As a result of this principle, Congress enacted our disqualification statute, 28 U.S.C. § 144 (1948).

This statute provides for disqualification for personal reasons only and not because of prior judicial experience. Congress obviously did not consider that a judge's

<sup>21</sup>Appendix A at 7-8.

prior judicial experience should render him incapable of giving an impartial decision.

The decision by the Court below is in conflict with this statute and with settled precedent that disqualification of a judge must be for "personal" bias against "this defendant", not for attitudes formed on the basis of prior judicial experience, even with closely related matters. See e.g. *Duplan Corporation v. Deering Milliken, Inc.*, 400 F.Supp. 497, 514-516 (Spartenburg S.C. 1975) (a patent case in which it was heavily emphasized that the "personal bias" must be derived otherwise than from judicial proceedings); *United States v. Grinnel Corp.*, 384 U.S. 563, 583 (1966) ("The alleged bias must ... stem from an extrajudicial source ..."). In *Deal v. Warner*, 369 F.Supp. 174 (W.D. Mo. 1973), quoting *United States v. Thomas*, 299 F.Supp. 494 (E.D. Mo. 1968) the court said at 177: "Indeed it would be most strange if '... a judge became less qualified the greater his [judicial] experience.'"

The decision by the Court below is also in conflict with the decisions of the District Courts in California and New York where the courts determined that a patent infringement action should be tried by a judge who had previously tried one or more of the patents in suit. *Bell Industries v. Sidewinder Marine, Inc.*, 179 U.S.P.Q. 142 (E.D. Cal. 1973) and *Union Carbide Corp. v. Continental Oil Co.*, 172 U.S.P.Q. 62 (S.D.N.Y. 1971). See also *Ziegler v. Dart Industries, Inc.*, 383 F.Supp. 362 (D. Del. 1974). These cases considered the presence of an experienced judge in patent litigation to be an important factor in conserving judicial resources. See also 15 Wright, Miller, Cooper, *Federal Practice and Procedure: Jurisdiction* § 3864

(1976) wherein it was said in considering which forum would be the most appropriate for transfer under 28 U.S.C. § 1407, at 351:

"The availability of an experienced and capable judge familiar with the litigation is one of the more important factors in selecting a transferee forum."

Prior to the decision of the Court below, the Court of Appeals for the First Circuit also held that the presence of an experienced trial judge was an important, if not a decisive factor, to be considered in determining between two courts, where the patent infringement action should be tried, see *Sweetheart Plastics, Inc. v. Illinois Tool Works, Inc.*, 439 F.2d 871, 875 (1st Cir. 1971).

The lower Court's opinion also gave credence to the variance in the ratio of patent validity-to-invalidity holdings in the various Circuits as a factor to be considered in deciding which forum patents should be litigated in. Any statistical study of the variance in patent validity rates between the Circuits should not be a consideration in formulating guidelines for determining where patent litigation should proceed.

Certainly, the prior judicial experience of a trial judge should not be considered a negative factor in determining which court should try a patent case. Our judicial system must subscribe to the premise that every court in this country will exercise a fair and unbiased approach to every case presented to it, patent or otherwise. Accepting any lesser standard in determining judicial disposition of cases would create a mockery of the foundation of our Federal court system.

**6. The Patent Venue Statute, 28 U.S.C. § 1400(b) Did Not Limit a Patentee's Right to Sue an Infringer Who Used and/or Sold an Infringing Product.**

Any tactical litigational advantages of the patentee in selectively suing infringers has been specifically eroded over the years. One of the reasons for the passage of the Federal Declaratory Judgment Act was to prevent a patent owner from threatening litigation against customers of a manufacturer who was then powerless, prior to the Act, to precipitate a decision on the patent. Additionally, the passage of the Venue Statute, 28 U.S.C. § 1400(b) in 1948 further limited the jurisdiction in which a patent owner could bring suit. This Venue Statute limits the patent owner to only suing where he can find a defendant (customer or manufacturer) with a regular and established place of business and in which infringing acts occurred or where the defendant resides.

The Venue Statute was to be neutrally applied to all defendants whether they made, used or sold the infringing product or practiced the process. Venue was properly found for both Yellow Freight and Western in the same judicial district although one was a customer and the other was a manufacturer.

Courts have recognized that § 1400(b) does not guarantee a manufacturer the absolute right to litigate patent issues in his "home forum". For instance, § 1400(b) is subservient to the transfer statute 28 U.S.C. § 1404(a), providing that a suit may be transferred in the interests of justice for the convenience of the parties. *Kaiser Industries Corp. v. Wheeling-Pittsburgh Steel Corp.*, 328 F.Supp. 365 (D.Del. 1971). In fact,



when a party brings a Declaratory Judgment action for patent invalidity and nonfringement, § 1400(b) does not even apply at all. *General Tire & Rubber Co. v. Watkins*, 326 F.2d 926, 929 (4th Cir. 1964), cert. den., 377 U.S. 909 (1964).

Codex was not denied any venue rights by the lower district court judges in either Kansas or Massachusetts.

**7. Reinstatement of the Stay Order in Massachusetts and Lifting of the Injunction Against Proceeding in Kansas Would Promote Judicial Economy.**

The effect of reinstating the Stay Order in Massachusetts and lifting the injunction of Milgo's litigation in Kansas against Yellow Freight will considerably reduce the expenditure of judicial time for the Federal court system and reduce the cost of litigation for Milgo.

The Yellow Freight suit in Kansas had the advantages of permitting consolidated discovery against Milgo to thereby avoid duplication of costs, depositions, etc., plus saving judicial time on pretrial motions and a consolidated trial on the common issues of validity. As the Federal court system is fully aware, patent litigation traditionally utilizes a disproportionate amount of pretrial discovery effort and trial time due to the complexity of the issues and the documentation involved. A single judge that is familiar with the technical issues will conserve judicial time. Only in Kansas is this possible.

As a practical matter, a consolidated patent validity trial in Kansas with Yellow Freight and Western would considerably reduce the triable issues for any subsequent trial, if necessary, in Massachusetts with Codex. The Massachusetts judge would further have the advantage of *Stare decisis* on twice litigated patents.

Realistically, if the Yellow Freight suit could be actively pursued, Codex would become involved in Kansas and a second trial in Massachusetts would be simply mooted with resulting conservation of judicial time, see *Schnell v. Peter Eckrich & Sons*, 365 U.S. 260 (1961).

**CONCLUSION.**

The lower Court's modification of the discretionary guidelines of *Kerotest, supra*, and the resulting impact on judicial economy must be rectified. The Federal court system can no longer tolerate duplication of extensive trials on the same issue and the creation of rigid artificial barriers to consolidation of discovery and trials.

Hence, this Court should grant a Writ of Certiorari to review the decision of the First Circuit Court of Appeals.

Respectfully submitted,

MILGO ELECTRONIC CORPORATION and  
INTERNATIONAL COMMUNICATIONS CORP.,

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**APPENDIX A.**

**United States Court of Appeals  
for the First Circuit**

**No. 76-1433**

**CODEX CORPORATION  
and  
YELLOW FREIGHT SYSTEM, INC.**

**Plaintiffs, Appellants,**

**V.**

**MILGO ELECTRONIC CORPORATION  
AND  
INTERNATIONAL COMMUNICATIONS  
CORPORATION,**

**Defendants, Appellees.**

**Appeal From the United States District Court  
for the District of Massachusetts**

**(Hon. Walter Jay Skinner, U.S. District Judge)**

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**Before Coffin, Chief Judge,  
Aldrich and Campbell, Circuit Judges.**

**April 29, 1977**

**Aldrich, Senior Circuit Judge.** This is an appeal from the denial of an injunction. Defendant-appellee Milgo, a Florida corporation, owner of certain patents, brought suit for infringement in the District of Kansas, against Yellow Freight, a customer of appellant Codex, the

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*William M. Rymer, with whom Frank P. Porcelli and Fish & Richardson were on brief, for appellants.*

*Stanley R. Jones, with whom Harold L. Jackson, Jackson & Jones Law Corporation, Gordon Williamson, and Kenway and Jenney were on brief, for appellees.*

manufacturer of the accused devices. Codex is a Massachusetts corporation which could not be sued in Kansas under the patent venue statute, 28 U.S.C. § 1400(b). Codex shortly thereafter brought the instant declaratory judgment action in Massachusetts and sought an injunction against the Kansas suit.<sup>1</sup> Milgo countered with motions to dismiss, to stay, or to transfer to Kansas. The district court, while finding that it could not be transferred because Kansas was not a district where the declaratory judgment action "might have been brought," 28 U.S.C. § 1404(a), stayed the Massachusetts proceeding until the Kansas suit be ended. Sub silentio, it denied the injunction. Codex appeals.<sup>2</sup>

We deal first with the question of our jurisdiction. Ordinarily, no appeal can be taken from district court orders on transfers between districts pursuant to 28 U.S.C. § 1404(a), *In re Josephson*, 1 Cir., 1954, 218 F.2d 174, 176-77; 9 Moore's Federal Practice ¶ 110.13[6] (2d ed. 1975), or from orders staying proceedings pending suit in another court, *Morales Serrano v. Playa Assoc., Inc.*, 1 Cir., 1968, 390 F.2d 593; 9 Moore, ante, ¶ 110.20[4.-2]. Although mandamus may be available in such cases, it will be granted, or even considered, only in "really extraordinary situations." *In re Josephson*, ante, at 183. However, the denial of an injunction against suit in another forum is appealable as of right, 28 U.S.C. § 1292(a), 9 Moore, ante, ¶ 110.20[1] at n.22, and it has been

<sup>1</sup>Yellow Freight joined as a plaintiff in Codex's declaratory action, and has no objection to litigating in Massachusetts rather than Kansas.

<sup>2</sup>Our disposition herein renders moot the related petitions for mandamus, *In re Codex Corp. & Yellow Freight System, Inc.*, No. 76-1387 Orig. and No. 76-1438 Orig.

held that in venue cases such as this the court of appeals will review the entire venue question as ancillary to the appeal from the disposition of the request for an injunction against a suit in another district. *Maryland v. Atlantic Aviation Corp.*, 3 Cir., 1966, 361 F.2d 873, cert. denied, 385 U.S. 931; *National Equip. Rental, Ltd. v. Fowler*, 2 Cir., 1961, 287 F.2d 43; *Tyrill v. Alcoa Steamship Co.*, 2 Cir., 1959, 266 F.2d 27; *Barber-Greene Co. v. Blaw-Knox Co.*, 6 Cir., 1957, 239 F.2d 774.

While we conclude that we have jurisdiction, this does not answer the question of the standard of review. Much of the reasoning counselling against liberal use of mandamus in choice of venue cases, see *In re Josephson*, ante, at 182-83, is equally applicable here. The decision on choice of venue is ordinarily a matter within the district court's discretion, not to be overturned except on a very strong showing. Where the lower court's decision is arrived at by balancing numerous factors such as the convenience of parties and witnesses, availability of documents, possibilities of consolidation or coordination, and so forth, there will often be no single right answer. Appellate review, therefore, is properly limited in the ordinary case because it serves little purpose, other than delay, to engage in a de novo consideration of such an inherently indeterminate decision. Indeed, just as in *Josephson* we indicated that we will ordinarily dispose of mandamus petitions in such cases by denying leave to file the petition for a writ, in cases where we have appellate jurisdiction summary disposition pursuant to local Rule 12 may often be appropriate. This does not mean, however, that discretion is non-reviewable. *Kerotest Mfg. Co. v. C-O-Two Co.*, 342 U.S. 180, 185. The case at



bar presents special reasons because of important considerations involved in patent litigation.

Were this simply a dispute between Yellow Freight, Codex, and Milgo, the issue would be simple. Milgo is a Florida corporation, and its technical experts and witnesses are to be found in Florida or elsewhere on the East Coast. Codex, a Massachusetts corporation, has its principal place of business here, with its witnesses and documents. Yellow Freight, a Kansas corporation, is merely a customer of Codex; Milgo has made no showing that the dispute concerning the devices which Codex provided to Yellow Freight bears any substantial relation to Kansas. Accordingly, as between Massachusetts and Kansas, Massachusetts would clearly be the more convenient forum.

Milgo argues that the Kansas action, having been filed earlier, should be preferred. *Mattel, Inc. v. Louis Marx & Co.*, 2 Cir., 1965, 353 F.2d 421, cert. dismissed, 384 U.S. 948. While the first-filed rule may ordinarily be a prudent one, it is so only because it is sometimes more important that there be a rule than that the rule be particularly sound. Accordingly, an exception to the first-filed rule has developed in patent litigation where the earlier action is an infringement suit against a mere customer and the later suit is a declaratory judgment action brought by the manufacturer of the accused devices. *William Gluckin & Co. v. International Playtex Corp.*, 2 Cir., 1969, 407 F.2d 177. At the root of the preference for a manufacturer's declaratory judgment action is the recognition that, in reality, the manufacturer is the true defendant in the customer suit. In spite of Milgo's vigorous protests to the contrary, it is a simple fact of life that a

manufacturer must protect its customers, either as a matter of contract, or good business, or in order to avoid the damaging impact of an adverse ruling against its products. See *Bros. Inc. v. W. E. Grace Mfg. Co.*, 5 Cir., 1958, 261 F.2d 428, 430.

Nor is Milgo correct in saying that "Codex was not deprived of any venue rights." It offers two reasons. First, Codex "may control the Kansas Yellow Freight litigation without becoming a party in Kansas." This ignores the fact that if Codex does that, and loses, the Kansas decision will be binding on it as *res judicata*. *Schnell v. Peter Eckrich & Sons, Inc.*, 1961, 365 U.S. 260, 262 n.4. Its alternative suggestion, that Codex "may let Yellow Freight control the Kansas litigation and then present its defenses in the Boston suit after the stay order is lifted" is even more disingenuous. Milgo's principal ground, post, for supporting the decision below is that because there is an already "experienced tribunal" in Kansas, a trial there would promote judicial economy. Obviously, if Yellow Freight is to be tried in Kansas, and then Codex in Boston, there will be no judicial economy, but, rather, judicial duplication.<sup>3</sup> Regardless of what Milgo would contend, it seems to us only too clear that the district court's decision effectively compels Codex to renounce its right not to be sued in a forum where it could not have been sued for infringement, 28 U.S.C. § 1400(b),

<sup>3</sup>We are aware of the observation in *Kerotest* that if the manufacturer does not wish to join in the customer suit, it may carry on a declaratory judgment suit elsewhere "simultaneously." 342 U.S. at 186. We may wonder whether the Court would say that today. Nor was this the view the district court adopted, for it said, "The alternatives are to enjoin the Kansas action, or stay this proceeding," and did the latter. Whether it thought that to stay was merely to postpone, or a euphemism for terminate does not appear.



and to which its declaratory judgment action could not have been transferred, 28 U.S.C. § 1404(a), *Hoffman v. Blaski*, 1960, 363 U.S. 335.

Venue rights, contrary, perhaps, to the view of the district court, which did not mention them at all, are important, particularly in patent litigation, *see Schnell v. Peter Eckrich & Sons, Inc.*, ante, 365 U.S. at 262 n.4, where it is well known that the patent bar believes that the hospitality accorded patents varies markedly from circuit to circuit.<sup>4</sup> With the advent of *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 1971, 402 U.S. 313, establishing, as to patentees, the one-strike-and-you're-out doctrine, forum shopping becomes peculiarly appealing. In these circumstances, while we do not say that there should be an inflexible rule, we would recognize a rebuttable presumption that a manufacturer's declaratory judgment action, in its home forum, at least if brought no later than promptly<sup>5</sup> after a customer action, should take precedence over a mere customer action in a jurisdiction in which the manufacturer could not be sued.<sup>6</sup>

<sup>4</sup>See, e.g., *Rayco Mfg. Co. v. Chicopee Mfg. Corp.*, S.D.N.Y. 1957, 148 F.Supp. 588; Baum, *The Federal Courts & Patent Validity: An Analysis of the Record*, 56 J. Pat. Off. Soc'y 758, 762 (1974).

<sup>5</sup>Milgo's statement that the declaratory judgment action was brought "more than one month" later, (actually 35 days), if meant to negative promptness, is quite unwarranted.

<sup>6</sup>There may be situations, due to the prospects of recovery of damages or other reasons, in which the patentee has a special interest in proceeding against a customer himself, rather than solely as a shadow of the manufacturer, and therefore less weight should be given to the manufacturer's forum. Nor do we mean to say that the balance of convenience might not indicate that the customer suit is in the more appropriate forum, but there is no present indication that this is such a case.

Milgo's basic argument for litigating in Kansas rests on claims of judicial economy. We preface this by repeating, *see ante*, that judicial economy assumes that the Kansas litigation is to be in substitution, rather than merely a precursor, for the Massachusetts action, and hence rejects Milgo's assertion that Codex's venue rights are in no way involved. The first of these claims is that Kansas is the preferable forum because Milgo has already litigated the validity of its patents there in a suit against another party, *United Utilities, Inc.* While Milgo's past success makes its affection for Kansas understandable, the substance of this argument overlooks the fact that that litigation being largely completed, there is no possibility of consolidation or coordination to promote judicial economy. Nor has there been any showing that Judge Templar, who had the *United* case, and who is a senior judge, will accept a new, and what may well be a lengthy case.<sup>7</sup> However, if he will do so, although the presence of an "educated judge" has been considered significant by some courts, *Union Carbide Corp. v. Continental Oil Co.*, S.D.N.Y., 1971, 172 U.S.P.Q. 62; *Bell Industries v. Sidewinder Marine, Inc.*, E.D.Cal., 1973, 179 U.S.P.Q. 142, since it is possible that some economies will be achieved by proceeding before the same judge, there are two sides to this coin. While a judge who has already found a patent valid as against one defendant may not be disqualified from reconsidering the issue against another, *Denis v. Perfect Parts, Inc.*, D.Mass., 1956,

<sup>7</sup>See *Ziegler v. Dart Industries, Inc.*, D.Del., 1974, 383 F.Supp. 362, 365. Milgo also urges as a reason for litigation in Kansas that the suit has been assigned for pre-trial to the same judge who supervised discovery in the *United* action, but we think this a slender reed.

142 F.Supp. 263, (a case about which the writer has since had doubts), if he is the fact finder, and the factual issues are the same, it may be difficult for the district judge to give, or to feel he is giving, a new defendant a de novo, impartial consideration. See discussion in *O'Shea v. United States*, 1 Cir., 1974, 491 F.2d 774, at 778-79, and cases cited. We consider prior judicial experience in such a situation more a negative than an affirmative reason for transfer.

Finally, Milgo points to the fact that along with the Codex suit, it has brought another Kansas action, this one against American Telephone & Telegraph Co., a New York corporation, Western Electric, its New York manufacturing subsidiary, Southwestern Bell, a Missouri subsidiary, and Boeing Computer, a Delaware Corporation which purchased accused devices from Southwestern. On the same day that the district court rendered its decision in the instant case, the Kansas court denied AT&T's motion to transfer that action to New York.<sup>8</sup> Apparently, then, the AT&T action will go forward in Kansas, and Milgo urges this as an additional reason for affirming the decision below.

The pendency of related litigation in another forum is a proper factor to be considered in resolving choice of venue questions, *see, e.g., Firmani v. Clarke*, D.Del., 1971, 325 F.Supp. 689; *Thompson & McKinnon v. Minyard*, S.D.N.Y., 1968, 291 F.Supp. 573, and may have been decisive in a number of cases where the convenience factors were inconclusive, *see, e.g., Pen-*

<sup>8</sup>The New York court had previously ruled that it would defer consideration of AT&T's motion for an injunction against the Kansas suit pending the Kansas court's ruling on the transfer motion, so that at the time the district court acted, it could not have known whether there would be another action in Kansas, or not.

*sin v. Goldman, Sachs & Co.*, S.D.N.Y., 1975, 397 F.Supp. 392; *Medtronic, Inc. v. American Optical Corp.*, D.Minn., 1971, 337 F.Supp. 490; *Maxlow v. Leighton*, E.D.Pa., 1971, 325 F.Supp. 913. However, we have found no case where it has carried the day against factors pointing in the other direction. Nor are we fully convinced of the propriety of using another customer suit of another manufacturer, which, incidentally, may have very different collateral issues, as a magnet to draw a suit to a jurisdiction where it otherwise should not be. This would mean that if a patentee brings enough suits in what, in all respects, other than its personal hope of a favorable outcome, is an unnatural and inconvenient forum from the standpoint of trial, it can bootstrap itself into staying there.

To return to the beginning, this whole question is normally for the decision and discretion of the district court, in which an appellate court should be slow to interfere. However, this is not a routine case, nor is it one where we find an abuse of discretion. Rather, it presents a situation, likely to recur, which we believe calls for the development of special principles not previously fully articulated. Since we see, in accordance with the principles herein set forth, room for only one decision, we see no point in remanding to the district court. While the result we reach here may not save judicial effort in this particular case, hopefully the views we have here set forth will, in the long run, diminish forum shopping and the attendant wasteful pre-trial skirmishing which has been all too common in patent litigation.

*Reversed.*



**APPENDIX B.**

**CODEX CORPORATION, ET AL., Plaintiffs v.  
MILGO ELECTRONIC CORPORATION, ET AL.,  
Defendants. CIVIL ACTION NO. 76-793-S.**

**MEMORANDUM AND ORDER OF STAY**

**July 23, 1976**

**SKINNER, D.J.**

This is an action for a declaratory judgment as to the validity of defendant's patents. These same patents are presently the subject of several infringement suits by defendant against various corporations including one of plaintiff's customers in the District Court of Kansas. Ordinarily, the request of the defendant to transfer this case to Kansas would be granted. Since this case could not have been brought there, however, it can not be transferred there. 28 U.S.C. §1404.

The alternatives are to enjoin the Kansas action, or stay this proceeding. The Kansas action pre-dates this one, is part of a group of similar cases in that district, and would appear to provide an adequate battleground for testing the validity of the patents in question.

Accordingly, further prosecution of this action is stayed pending the outcome of *Milgo Electronic Corporation v. Yellow Freight Systems, Inc.*, CA No. 76-16-C2, pending in the United States District Court for the District of Kansas.

/s/ Walter Jay Skinner  
United States District Judge